

Info Item 2: Budget and Rate Concepts

Presented to the Environment Committee
April 10, 2012

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Today's Agenda

- 1. SAC**
- 2. Industrial Rates**
- 3. Debt Service and Pay-As-You-Go**
- 4. Rate Comparisons**
- 5. Reserve Use Options**



SAC

- **SAC reserve balance was \$23.1M on 12/31/11 (unaudited)**
- **2013 SAC rate depends mainly on:**
 - Assumptions about economy
 - Desired SAC reserve balance
- **In no scenarios will SAC reserve policy expectation be met for 2013 of \$37M**
- **Under all scenarios, no SAC shift is needed in 2013 (to keep reserve balance above \$10M)**



SAC Unit Assumptions under Various Scenarios

Year	Bad Economy	Flat Economy	Base Scenario	Good Economy	Very Good Economy
2012	7,500	10,000	11,000	11,000	12,000
2013	8,000	10,000	11,500	12,000	13,000
2014	8,500	10,000	12,000	13,000	15,000
2015	9,000	10,000	13,000	14,000	17,000
2016	9,500	10,000	14,000	15,000	17,000

SAC Units: 9,817 in 2011
 8,304 in 2010
 6,653 in 2009



SAC: Four Cases within Base Scenario

- **1a: No SAC rate increase in 2013; 6% thereafter**
- **1b: 3% increase in 2013 and 2014; 6% thereafter**
- **1c: 6% in 2013 and each year thereafter**
- **1d: Increase rate enough to achieve established minimum balance at year-end 2015 (12% increases would be needed in 2013, 2014 and 2015)**



SAC

- **Council Policy 3-2-5: *Except in a multi-year economic downturn, the minimum balance will be the average of the required SAC transfer projected for each of the five following years***
 - Minimum balance is approximately \$35M in 2012 growing to \$43M in 2015
- **Under base scenario, with continual 6% SAC rate increases, reaching minimum balance policy is projected in 2018**



SAC Reserve Balances for Base Scenario

(\$ in millions)

Year	1a (0%)	1b (3%)	1c (6%)	1d (12%)
2012	26.5	26.5	26.5	26.5
2013	24.6	25.4	26.2	27.8
2014	23.5	24.4	27.0	32.3
2015	24.7	25.6	30.3	43.0 = min. bal.
2016	27.6	28.6	35.9	58.6
2017	32.3	33.4	43.6	82.2



SAC: Bad Economy Scenario

Year	SAC Units	Rate Increase	SAC Shift Needed	Reserve Balance
2012	7,500		\$4.3M	\$18.4M
2013	8,000	12%	\$0	\$10.0M
2014	8,500	12%	\$6.4M	\$10.0M
2015	9,000	12%	\$5.7M	\$10.0M
2016	9,500	12%	\$0	\$10.0M
2017	10,000	12%	\$0	\$11.0M



SAC: Flat Economy Scenario

Year	SAC Units	Rate Increase	SAC Shift Needed*	Reserve Balance
2012	10,000		\$4.3M	\$24.2M
2013	10,000	9.6%	\$0	\$20.9M
2014	10,000	9.6%	\$0	\$18.0M
2015	10,000	9.6%	\$0	\$15.6M
2016	10,000	9.6%	\$0	\$12.9M
2017	10,000	9.6%	\$0	\$10.0M

** If SAC shifts are implemented, rate increase can be reduced (but authorization ends in 2015).*



SAC: Good Economy Scenario

Year	SAC Units	Rate Increase	SAC Shift Needed	Reserve Balance
2012	11,000		\$0	\$26.5M
2013	12,000	2%	\$0	\$26.3M
2014	13,000	2%	\$0	\$27.2M
2015	14,000	2%	\$0	\$29.1M
2016	15,000	2%	\$0	\$31.2M
2017	16,000	2%	\$0	\$33.1M



SAC: Very Good Economy Scenario

Year	SAC Units	Rate Increase	SAC Shift Needed	Reserve Balance
2012	12,000		\$0	\$28.9M
2013	13,000	0%	\$0	\$30.5M
2014	15,000	0%	\$0	\$35.0M
2015	17,000	0%	\$0	\$42.3M
2016	17,000	0%	\$0	\$46.7M
2017	17,000	0%	\$0	\$47.7M



SAC Transfer

- **Annual SAC transfer uses Combination Method**
- **Growth Cost Method was recommended by SAC Task Force**
 - **Bill to authorize this change did not get a hearing**



SAC Transfer to ES Operations (Projections)

(\$ in millions)

Year	Combination Method	Growth Cost Method	Variance*
2012	\$27.7	\$29.9	\$2.5
2013	\$29.9	\$31.6	\$1.7
2014	\$31.7	\$32.3	\$.6
2015	\$33.8	\$34.5	\$.7
2016	\$36.9	\$37.4	\$.5

**Change to Growth Cost method would cause a relatively minor additional hardship on the SAC fund.*



SAC Conclusions

- **No SAC shift is needed in 2013**
- **Continue SAC policy reserve exception**
- **Propose increasing SAC rate 3% in 2013**



Industrial Rates

- **Strength Charges**
- **Load Charges**
 - Standard
 - Collar County
 - Portable Toilet Waste
 - Holding Tank
 - Industrial
- **Permit Fees (vary depending on federal status and reporting frequency)**
- **Cost Recovery Fees**
 - Late Report Fee
 - Notice of Violation Fee
 - Order to Appear Fee
 - Stipulation Agreements



Industrial Rate Issues

- **Formula basis for “regional cost of service”**
- **Holding tank facilities component phase-in**
- **Permit fee phase-up to full cost recovery of the program’s direct costs**



Load Charge Components

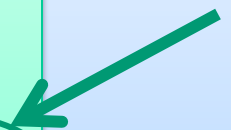
- **Strength (based on averages)**
- **Volume**
- **Facilities**
- **Administrative (for out-of-region)**



Holding Tank Load Charge

- **Only load charge that doesn't pay full facility component**
- **Phase-up (25% increase in 2009 and 2010; 50% in 2011 and 2012)**
- **Full cost in 2013 would be about \$10.75 (58.5% increase)**

Rate w/ 50% Annual Increase	
2010	3.01
2011	4.52
2012	6.78
2013	10.17





Permit Fees

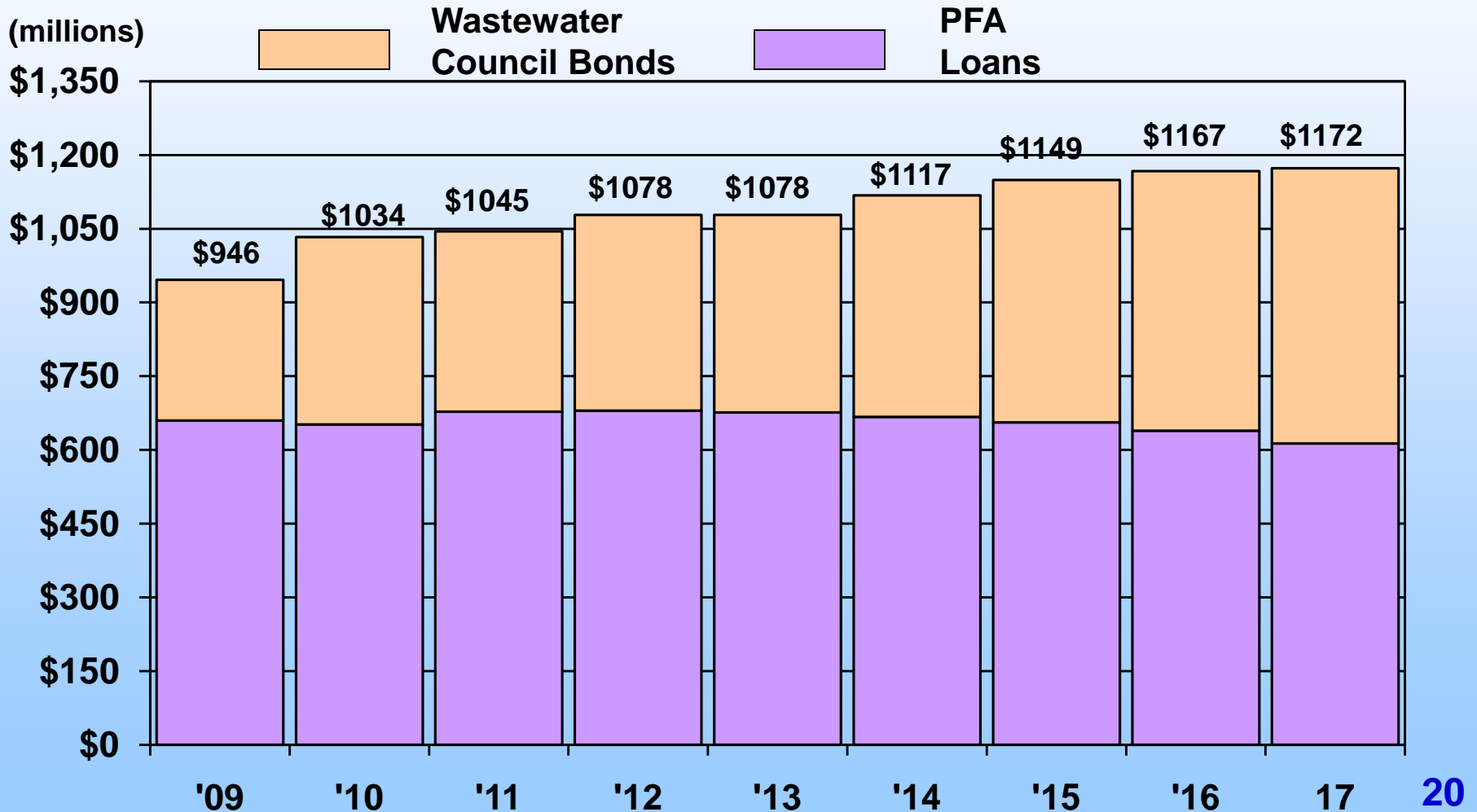
- **Goal has been to increase direct program cost recovery through gradual increase in annual permit fees**
- **Currently, 67% of direct program costs are covered by permit fees**
- **If rates increase about 5% over MWC increases, goal will be attained in 2019***

** Assuming 3% inflation and 4% MWC annual increases*



Outstanding Debt

Actual through 2010, projected thereafter





Pay-As-You-Go

■ Pros:

- Avoids interest expense
- Adds flexibility into annual budget
- Positive factor for bond rating

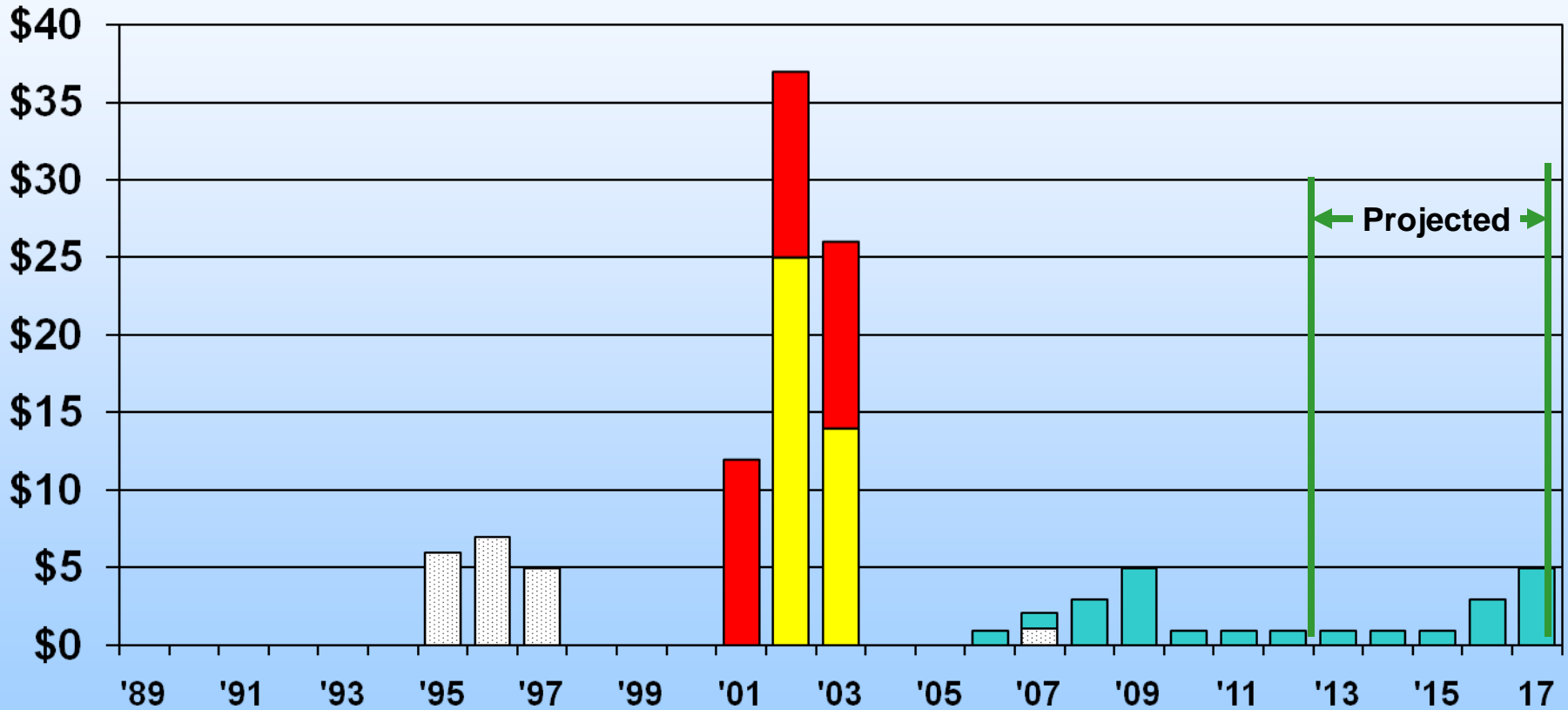
■ Cons:

- Higher Municipal Wastewater Charges during transition
- Opportunity cost



Pay-As-You-Go

(millions)



Favorable Variance

Annual Budget

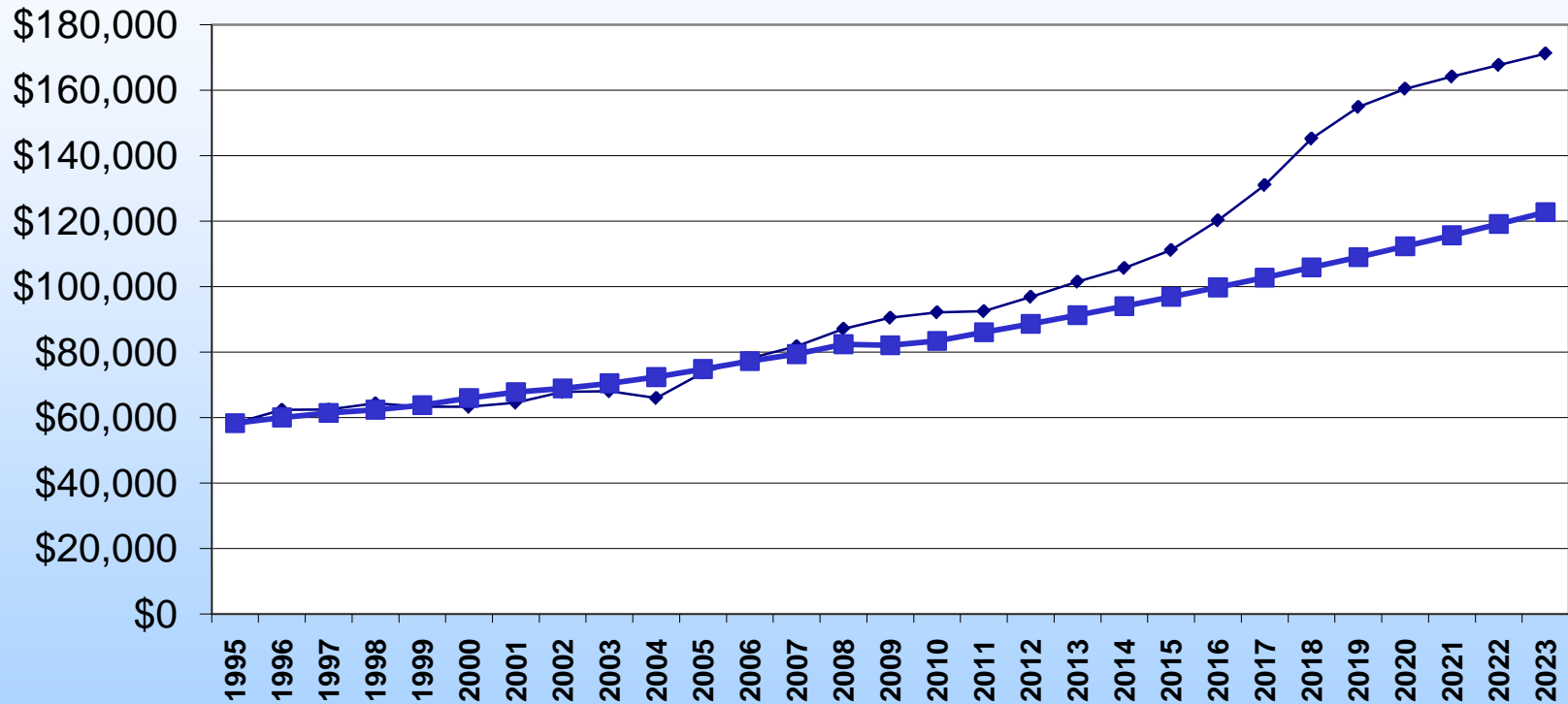
SAC (Service Availability Charge)

CRF (Capital Revolving Fund)



Wastewater Debt Service

(millions)

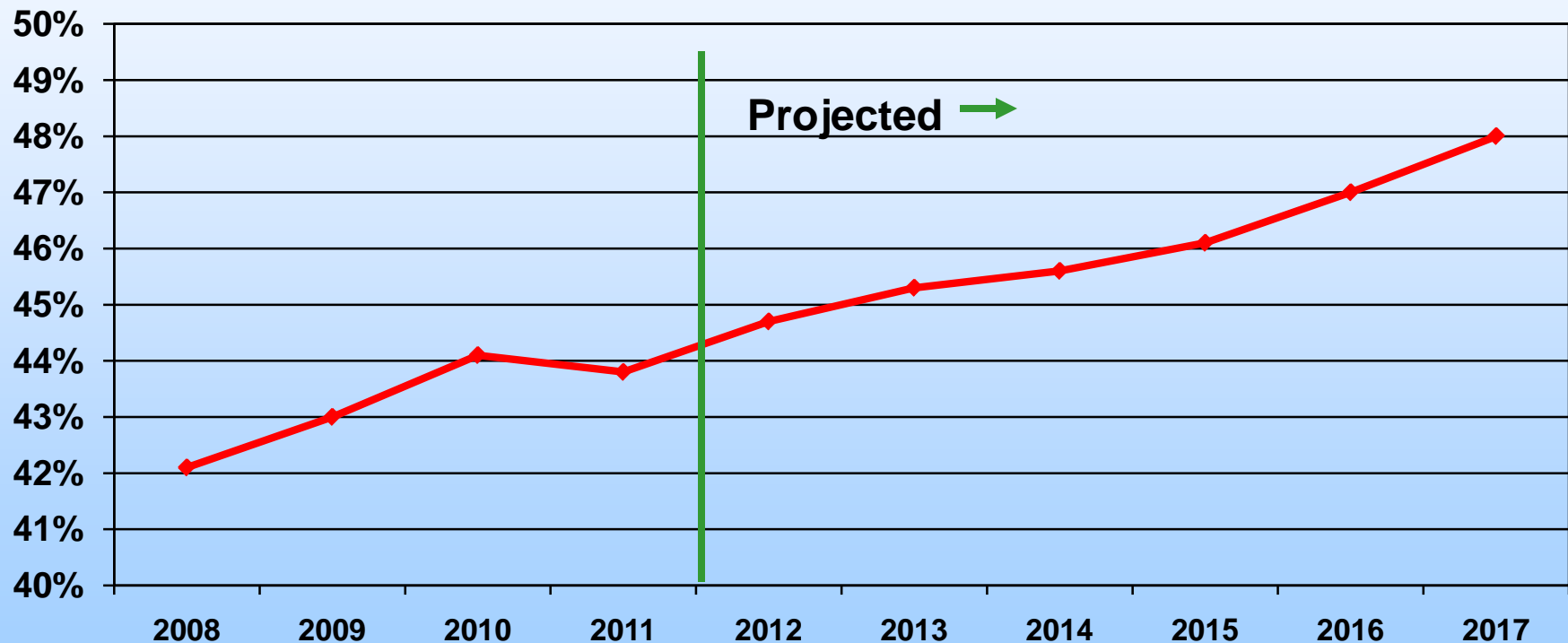


- *Actual through 2011, projected thereafter based on CIP and level debt service on all new debt.*
- *Lower line is 1995 debt service with inflation.*
- *Structure of existing debt has higher principal repayments 2015-2020.*



Debt Service Projections

Percent of annual budget*



**Includes the portion of debt service paid by SAC transfer. Assumes O&M portion of budget increases 3% per year and assumes PAYGO is \$1M through 2015 increasing \$2M per year thereafter.*

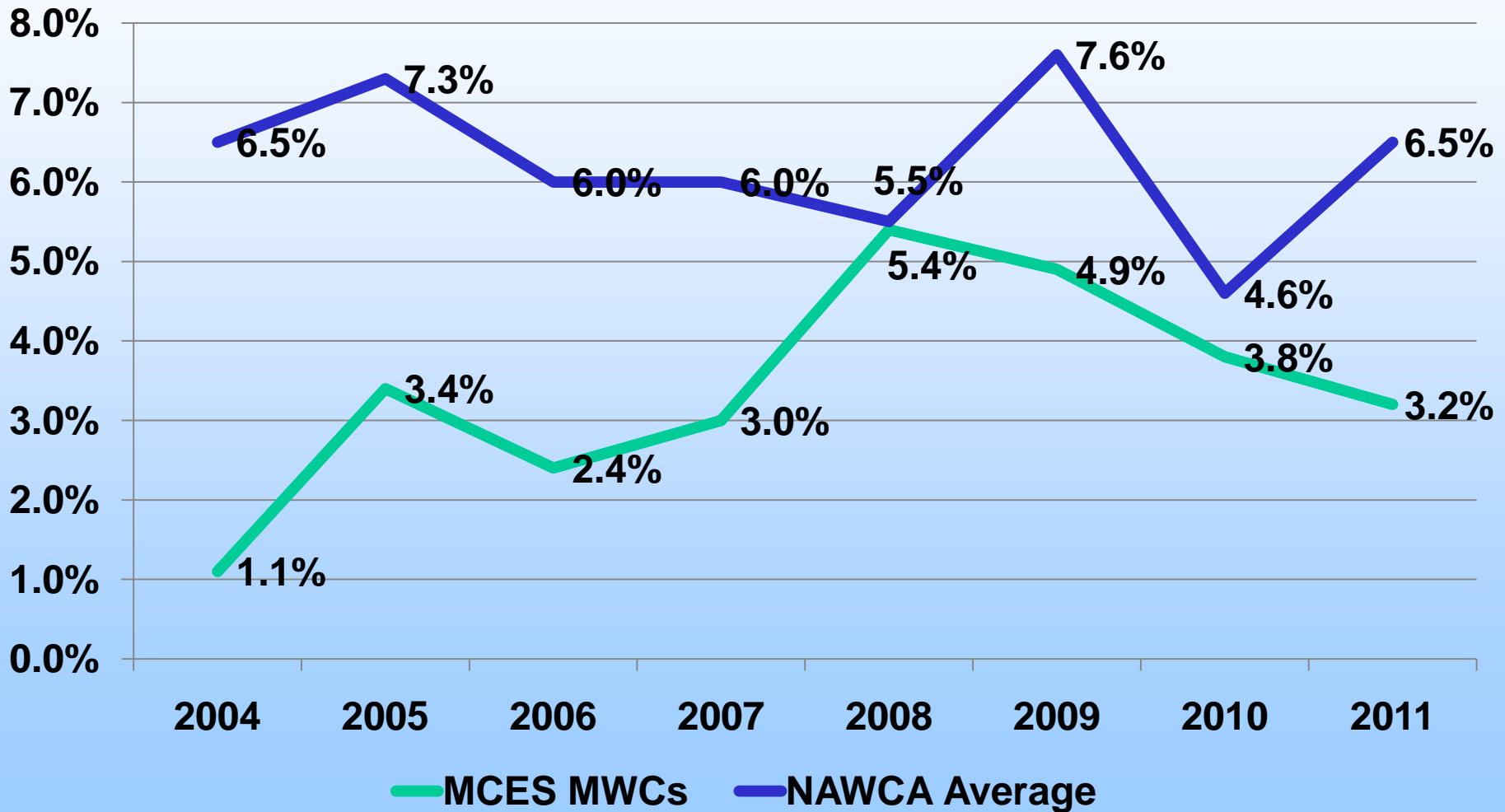


Wastewater Charges

- **Ranking**
- **Comparison to peers**
- **NACWA index**



MCES Increases Compared to NACWA Average





Wastewater Reserves*

Fund	Amount
Operating and Contingency (\$15.3M designated for future SAC shifts)	\$30.5M
SAC	\$23.1M
Debt Service	\$12.5M
OPEB	\$42.5M

**Unaudited balance on 12/31/11*



Operating Reserves

■ Primary use options

- OPEB
- PAYGO
- Decrease budgeted → rate mitigation
- Reserve for SAC issues



2013 Budget Schedule Overview

■ Annual Operating Budget/Rates

- April Internal budget development
- May Discussion with Environment Committee
- June Discussion with public
- July Rate adoption
- July/Aug Council prelim unified operating budgets
- Nov Public hearing
- Dec Council adoption

■ Capital Budget/ACP/CIP

- Aug Discussion with Environment Committee
- Sept Prelim unified capital budgets
- Nov Hearing
- Dec Adoption



Questions, Comments

